



Bulletin

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Social Security Debate Heats Up

News out of Washington indicates Social Security reform has become a front-burner discussion. One proposal under review is to extend Social Security coverage to all new state and local government employees. The Teachers' Retirement Board opposes mandatory coverage because it would threaten STRS' financial well being.

With mandatory Social Security coverage, there is no guarantee funds would be available to provide the same level of benefits STRS now provides. In fact, actuarial studies undertaken for STRS show the current Defined Benefit Plan produces a much greater benefit than a plan coordinated with Social Security for the same level of contribution. This is in part because STRS is more soundly funded than Social Security. Employer and employee contributions are invested according to solid portfolio management principles in a range of assets providing a greater return than the returns on government bonds held by the Social Security "trust fund."

If Social Security is substituted for a large portion of the STRS DB Plan benefit, contributions to the plan will have to increase to fund the same level of benefits. The increase, according to STRS actuarial studies, would be an additional 3 percent to 6 percent of payroll to fund a supplemental retirement tier that, when combined

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Wide-Ranging Array of Benefit Improvements Signed Into Law

Suddenly at the end of the state legislative session, all forces came together to create fundamental and wide-ranging improvements to the STRS Defined Benefit Plan retirement benefit structure.

A coalition of educator and employer groups, working with the Teachers' Retirement Board, shepherded the measures making up the benefits package through the legislative session. Governor Pete Wilson signed the bills, dubbed the Teacher Recruitment and Retention Benefits Package, in September. Each will take effect on January 1, 1999, generally for members who retire on or after that date. The new benefit structure will put STRS retirements benefits on a par with comparable systems in California and around the nation.

"We were surprised and delighted that all our efforts came together in the closing days of the legislative session. These benefit improvements mean a new day has dawned for retiring STRS career educators," said Emma Zink, Chairperson of the Teachers' Retirement Board, and a high school teacher from La Jolla.

Teacher Retention is the Goal

The retirement benefit picture has changed for STRS members as they move through their education careers and make their retirement plans. For the first time, the STRS retirement

benefit structure provides an attractive reward for continuing in public education at least 30 years or past age 60. Members with long careers will see sizable increases in their STRS retirement allowances. These increases will enhance member retirement lifestyles and make retirement years more secure.

Enhanced Age Factor

Retirement allowances for members retiring on or after January 1, 1999, at ages 60 1/4 through age 63 and older will be considerably higher than in previous years due to an increased age factor schedule. The age factor, an element in calculating the monthly allowance, will be increased for each quarter year of age from 2.0 percent at

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Message from the Chair

By Emma Zink, Chairperson
Teachers' Retirement Board

This November will mark Jim Mosman's 10th year as Chief Executive Officer of STRS. It's natural at such a milestone to look back, to take stock of the system under his leadership. I won't be able to sum up a decade on this one page, so I've selected what I think are the two main areas of achievement.

When Jim was hired by the Teachers' Retirement Board, an article in the *Sacramento Bee* described him as a "problem solver." That valuable skill was needed because the Board had given him a clear mandate to improve the service delivery to the members.

When Jim came on board, a member had to wait on hold more than 16 minutes to talk to a Public Service Office technician. That is if you were lucky enough not to get a busy signal when you called. Thanks to new technology and procedural changes, today that wait averages 30 seconds. This is truly remarkable given that in 10 years the number of calls per year has jumped from 132,000 to 299,000 calls.

A bigger service challenge was in getting benefits to the retired members in a timely and efficient fashion. In 1988, once the completed retire-

ment application was turned in, a teacher had to wait at least 45 days for his or her first benefit allowance.

By scrapping the manual processing of paperwork for an automated on-line computer system, dramatic improvements have been made in benefit delivery. This year, 99 percent of the teachers who retired got their first allowance within 30 days.

Other improvements in serving the members under Jim's direction include the Mid-Career Program for teachers more than 10 years from retirement, which helps them understand and take steps to deal with important mid-career and pre-retirement issues and the Regional Counseling Services expansion.

Jim said in a *STRS Bulletin* article shortly after he was hired that since STRS was the largest teachers' retirement system in the nation, he believed it should also be the best—STRS should set the standards, not be a follower.

Nowhere is the achievement of this goal more evident than in the growth of the retirement fund itself. Using sound portfolio management prin-

ciples, Teachers' Retirement Fund assets have increased from \$23.7 billion in 1988 to \$88.3 billion as of June 1998.

More important is the fact that a recent actuarial valuation showed the TRF is 97.3 percent funded. This is a measurement of the unfunded obligation, which are the funds required to pay for benefits already earned by members. With fully funded status near, the door was opened this summer to create and gather support for the unprecedented benefit increases just signed into law.

STRS is now a world-class retirement system. With Jim's direction, STRS has seen significant strides in service to members, new technology to keep up with changing times and solid investment strategies and growth. I predict more of the same under Jim's continuing leadership.

Ask the Chief

by James D. Mosman, C.E.O.
State Teachers' Retirement System

How were the new benefits developed and turned into legislation?

The race to the sudden passage of the benefit-enhancing legislation began in February when an actuarial valuation revealed the Teachers' Retirement Fund was 97.3 percent funded. (The valuation process measures the TRF unfunded liability, which is the funds required to cover benefits already earned by the members of the Defined Benefit Plan.)

Thanks to a higher than anticipated investment rate of return, the new

valuation showed the current unfunded liability would be paid, or amortized, by 2000, instead of in 18 years, as shown in a 1995 valuation. With the TRF nearly funded, the time was right to work on enhancing the benefit structure.

The Process to Passage

To help in the deliberations by the Teachers' Retirement Board, STRS conducted a study comparing the Defined Benefit Plan with the California Public Employees' Retirement System and teachers' retirement systems in other states. The study showed the STRS benefits fell below the level of most of the other retirement systems. The study also showed STRS benefits did not meet the adequacy level desired by the Board.

To remedy this situation and fulfill long-held desires to improve benefits, STRS designed alternatives for consideration by the administration to provide an adequate retirement benefit and to provide teacher recruitment and retention incentives. These two objectives were met by the benefits package of legislation, crafted with input from teacher and employer groups. The benefits package consisted of Ralph Dills Teachers and Recruitment and Retention Act (AB 1102/Knox), and AB 1150/Prenter, AB 2804/Honda and SB1528/Schiff.

A coalition of interested parties (listed on page 7) educated legislators on the need to support the benefits package.

The actual passage of the package ended in a dramatic sprint to the finish line, with the Legislature voting on the bills the last day of the two-year legislative session.

The final hurdle toward enactment was Governor Wilson's signature. The Governor, along with the Legislature, has long been interested in solving California's teacher shortage and recognized the recruitment and retention value of the benefit package. Even before the bills were passed, Governor Wilson had signaled his willingness to sign the legislation into law.

Funding for the New Benefits

Any increase in benefits naturally comes with an increase in costs. TRB policy requires adequate funding as a prerequisite for new benefits. Therefore, one of the bills enacted in the benefits package establishes a payment plan for the unfunded obligations set up by the new benefits by refinancing the remaining unfunded obligation.

Rather than spending about \$650 million to reduce the debt, the General Fund will spend only about \$80 million a year over an extended period of time until the unfunded liability is eliminated. Most of the remaining money will pay the costs of the new benefits, with the remainder staying in the General Fund. In this way, the state spends less money than it otherwise would have, and the teachers of California get needed and well-deserved retirement benefits.

STRS Vision Statement
STRS is committed to lifetime security and service that meets the changing needs of California's educators.

STRS Bulletin
State of California
Pete Wilson, Governor
Anne Sheehan, State and
Consumer Services Agency Secretary

Teachers Retirement Board
Emma Zink, Chairperson
Lillian Raffel, Vice Chairperson
Yvonne Gallegos Bodle, Ph.D.
George Fenimore
Gary Lynes
Marty Mathiesen
Michael Mayer
Delaine Eastin, Superintendent
of Public Instruction
Kathleen Connell, State Controller
Matt Fong, State Treasurer
Craig L. Brown, Director of Finance

James D. Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer

Sherry Reser, Managing Editor
Susan Skeoch, Editor

Information in this publication about teachers' retirement law or policy is meant as a guide only. If a conflict arises between information contained in this publication and the law, the law takes precedence.

STRS Bulletin is published twice a year for members and benefit recipients of the California State Teachers Retirement System. Comments or suggestions may be directed to: Editor, Public Affairs, MS #34, P.O. Box 15275, Sacramento CA 95851.

<http://www.strs.ca.gov>





All Future Retired Members To Get Unused Sick Leave Credit

One piece of legislation in the benefit package enables STRS to convert your accumulated unused sick leave to service credit when calculating your Defined Benefit Plan retirement allowance. The law change applies to all STRS members who retire on or after January 1, 1999. Previously, unused sick leave credit could be used in your retirement calculation only if you became a STRS member before July 1, 1980, and had been a member continuously since then.

The amount of service credit you have accumulated is one of three elements used in the calculation of your retirement allowance. (The three elements are service credit, age factor and final compensation.) An increase in your service credit will increase your STRS unmodified retirement allowance.

STRS statistics show the typical member has accumulated about six months of sick leave at retirement.

Unused sick leave is converted to service credit by dividing the number of days of accumulated unused sick leave by the number of base days required for full time service in your district.

Example

This example illustrates the impact unused sick leave can have on service credit and retirement allowance.

Marty has taught for 16 years and retires at age 60 with a final compensation of \$4,000. He has accumulated 125 unused sick days and 182 base service days comprise a full year of service in his district.

$125 \text{ (unused sick days)} \div 182 \text{ (base service days in a year)} = .687 \text{ year service credit for unused sick leave.}$

This is added to Marty's 16 years of credited service for a total of 16.687 years of service credit. Marty's new monthly unmodified allowance is \$54.96 higher than it would have been without the unused sick leave.

Service Credit Without Sick Leave

16.000 (Years of Service Credit)

X 2.000 (Age Factor)

X \$4,000 (Final Compensation)

\$1,280.00 Unmodified Allowance

Service Credit With Sick Leave

16.687 (Years of Service Credit)

X 2.000 (Age Factor)

X \$4,000 (Final Compensation)

\$1,334.96 Unmodified Allowance

Wide-Ranging Benefits

continued from page 1

age 60 to 2.4 percent at age 63 and older. Currently, there is no age factor beyond 2.0 percent for retiring members older than age 60. See page 5.

New Career Bonus

A new "career bonus" will improve the retirement allowances of members who retire on or after January 1, 1999, with 30 or more years of service credit, regardless of their age at retirement. The increase is provided by a bonus of 0.2 percent (two tenths of one percent) added to the age factor, up to the maximum age factor of 2.4 percent. See page 6.

Unused Sick Leave Credit for Retirement Calculations

All STRS members retiring after January 1, 1999, will be able to use accumulated sick leave in their calculations for service retirement. Currently, accumu-

lated sick leave could be used in a member's retirement calculation only if he or she had been a member of STRS continuously since July 1, 1980, or earlier. See story above.

Funding For Purchasing Power Guaranteed

Year to year funding has been provided for the supplemental payments STRS makes to longtime retire members whose allowances have been eroded by inflation. A law included in the benefit package legislation guarantees continued General Fund money and guarantees the benefit that is payable from that amount. See page 6.

Health Insurance Plan Study

STRS has been given the green light to research the feasibility of establishing a health insurance program, including dental and vision care. A health insur-

ance plan available to all members would fill a major benefit gap that exists for some active and retired STRS members and their beneficiaries.

Home Loan Program Enhanced

In addition to the benefits noted above, the STRS home loan program was enhanced by legislation passed this session. STRS members will be allowed up to 100 percent financing for the purchase of a home. The law states a member can obtain a loan equal to 95 percent of the home's value financed through one of the STRS correspondent lenders (Bank of America or Norwest Mortgage), with the remaining 5 percent financed as a personal loan secured by the member's contribution account at STRS. Details on the program will be available when the law becomes effective January 1, 1999.



Retirement Age Factor Increased to 2.4 Percent Maximum

The benefit package legislation creates fundamental changes in benefits for members by increasing the retirement age factor for STRS members retiring on or after January 1, 1999.

The age factor will be increased for each quarter year of age from 2.0 percent at age 60 to 2.4 percent at age 63. The 2.4 percent is the new STRS maximum age factor. Previously, the STRS maximum age factor of 2.0 percent was achieved at age 60 and there was no increase in age factor if you retired at an age beyond 60. The new maximum factor allows you to increase your age factor, and thus, your retirement allowance, as you work beyond the age of 60.

The age factor is a percentage determined by your age at retirement. It is one of the three elements multiplied to determine your monthly service retirement allowance. The other elements are your years of service credit and your final compensation. Increasing any of these elements would raise your monthly allowance.

Examples

The new age factors provide a bonus for members who continue to work beyond age 60. Actually, by working past age 60, you will increase two

elements used to calculate your unmodified retirement allowance. You can retire at a later age, achieving a higher age factor and you will also accumulate more years of service credit.

Example 1 shows the effect of retiring at age 63. For purposes of illustration, Sheila's years of service credit are the same in both cases. Example 2 shows the effects on Mike's retirement allowance of an increased age factor and increased years of service credit.

Example 1

Sheila retires, after January 1, 1999, at age 63 with 28 years of service credit and a final compensation of \$4,000 a month. Sheila's age factor as of January 1, 1999, will be 2.400 percent.

Sheila's new unmodified retirement allowance will be *twenty percent higher*

Age Factor Before 1/1/99	
28 (Years of Service Credit)	
X 2.000% (Previous Age Factor)	
X \$4,000 (Final Compensation)	
\$2,240 Unmodified Allowance	
Age Factor as of 1/1/99	
28 (Years of Service Credit)	
X 2.400% (New Age Factor)	
X \$4,000 (Final Compensation)	
\$2,688 Unmodified Allowance	

than it would have been using the current age factor.

Example 2

Mike intended to retire at age 60 with 26 years of service credit. With the new benefit structure, Mike *defers his retirement, works three more years and* retires at age 63 with 29 years of service credit. Mike's final compensation is \$4,000 a month. Mike's age factor as of January 1, 1999, will be 2.400 percent.

Mike's new unmodified retirement allowance at age 63 is *thirty-four percent higher* than it would have been under the current calculation and at age 60. If his salary had increased during his final three years, his new retirement allowance would be even higher.

Current Factor/Service Credit Before 1/1/99	
26 (Years of Service Credit)	
X 2.000% (Previous Age Factor)	
X \$4,000 (Final Compensation)	
\$2,080 Unmodified Allowance	
Age Factor/Increased Service Credit as of 1/1/99	
29 (Increased Service Credit Years)	
X 2.400% (New Age Factor)	
X \$4,000 (Final Compensation)	
\$2,784 Unmodified Allowance	

Questions About the New STRS Benefits?

The enhanced retirement benefits are of interest to you and STRS expects a large volume of calls to the phone center regarding the benefits package. To provide the best customer service to members who are retiring soon, STRS asks members who are a few years away from retirement to obtain information through the automated features of the STRS phone system available 24

hours a day, seven days a week. Members may hear more information on the new benefits by calling STRS at the number listed below, selecting the Teletalk recorded message system and accessing Teletalk message #376.

For printed information, members may call STRS, select the Teletalk system, select the Order Forms option, request

the "Enhanced Benefit Information Packet" and it will be mailed to you.

The information will also be on the STRS Web site at <http://www.strs.ca.gov>.

Call STRS at:
Toll free: 800-228-5453
Local: 916-229-3870
Hearing impaired persons: 916-229-3541

Career Bonus Aids Experienced Educators

One provision of the benefit package legislation is designed to reward educators who stay on the job longer, regardless of their age at retirement. Members who retire on or after January 1, 1999, with 30 or more years of service credit will have 0.2 percent (two tenths of one percent) added to their age factor. The maximum age factor with the bonus is 2.4 percent.

Defined Benefit Formula

Qualifying for the career bonus by teaching 30 years or longer is desirable because it increases one of the elements used to calculate your retirement allowance, and, thus, it raises your monthly retirement allowance. STRS Defined Benefit Plan retirement allowances are calculated using a formula multiplying age factor, years of service credit and final compensation at time of retirement.

The career bonus is added to the age factor for members who retire with 30 or more years of credited service, excluding service credited for unused sick leave or a "Golden Handshake" program.

Age	Age Factor With Less Than 30 Years As of 1/1/99	Age Factor with Career Bonus for 30 Years or More As of 1/1/99
50	1.100	1.300
51	1.160	1.360
52	1.220	1.420
53	1.280	1.480
54	1.340	1.540
55	1.400	1.600
56	1.520	1.720
57	1.640	1.840
58	1.760	1.960
59	1.880	2.080
60	2.000	2.200
61	2.133	2.333
62	2.267	2.400
63+	2.400	2.400

Example

Terri is 58 and has 31 years of credited service when she retires. Terri's final compensation is \$4,000 a month, at her retirement after January 1, 1999.

In the example, the monthly *increase* in Terri's unmodified retirement allowance due to the career bonus is \$248, or 11.4 percent.

Current Age Factor
 31 (Years of Service Credit)
 X 1.760 (Current Age Factor)
X \$4,000 (Final Compensation)
 \$2,182.40 Unmodified Allowance

Age Factor With Bonus as of 1/1/99
 31 (Years of Service Credit)
 X 1.960 (Career Bonus)
X \$4,000 (Final Compensation)
 \$2,430.40 Unmodified Allowance

Purchasing Power Guaranteed

*July 3, 1998
 Kathleen Connell
 State Teachers Retirement
 Dear Kathleen Connell,
 I just received my July retirement check and my quarterly check. I am so pleased and grateful to receive such a wonderful quarterly check. My many thanks to all who made this possible. I am now 98 years old and care for my 100-year-old sister, so the extra money is so welcome and needed.*

*Most sincerely,
 Ella M. Helder*

Recognizing inflation erodes the purchasing power of retirement allowances, STRS supplements longtime retired members' allowances to raise them to a certain level of purchasing power. This is the "extra money" Ms. Helder mentions in her kind note. Ms. Helder's new level of purchasing power is 75 percent, up from the previously set level of 68.2 percent.

Purchasing power is a measure over time of how much your income can buy, given the change in prices for goods and services. STRS compares the change in STRS allowances to the change in the California Consumer Price Index. STRS, along with other

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Thanks Deserved All Around

Passage of the historic set of STRS benefit increases happened because many hands pulled together to get the legislation through to completion. Teacher and employer groups provided input and support as the proposed benefit increases were crafted and as they were deliberated by the Legislature. Bill Collins, CTA's legislative

advocate, warrants special mention for coordinating the efforts of the Retirement Coalition listed below. The attention shown by the bills' authors and their staff proved their interest in the welfare of educators. The beneficiaries of this huge cooperative effort are educators, both active and retired.

Legislators:

Senator John Burton
 Senator Patrick Johnston
 Senator Adam Schiff, author of SB 1528
 Senator Hilda Solis
 Assemblymember Jim Cunneen
 Assemblymember Mike Honda and Members of the
 Assembly Public Employees Retirement and
 Social Security Committee, authors of AB 2804
 Assemblymember Wally Knox, author of AB 1102
 (Ralph Dills Teacher Recruitment and
 Retention Act)
 Assemblymember Robert Prenter, author of AB 1150

Teacher and Employer Organizations:

The Retirement Coalition

Association of Retired Teachers
 Association of California School Administrators
 California Federation of Teachers
 California Retired Teachers Association
 California Teachers Association
 Faculty Association of California Community Colleges
 United Teachers of Los Angeles
 Board of Governors, California Community Colleges

Thanks to Administration Individuals:

Craig Brown, Director, Department of Finance
 Robin Dezember, Department of Finance
 Bob Straight, Department of Finance

Purchasing Power

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interested parties, works with legislators to ensure funding for these supplemental benefits to aid longtime retired members who have seen inflation erode their allowances.

First Checks Sent in April

The 1997 law, the Ruth Q. dePrida Pension Protection Act, named for the first retired teacher to sit on the Teachers' Retirement Board, raised the purchasing power protection of STRS allowances to its highest level to date.

In April, the first checks were sent to more than 43,000 retired members,

beneficiaries or disabled members whose current benefit, after considering the impact of inflation, was already below 68.2 percent of the value of their initial benefit. The increase brought their benefit level up to 75 percent. Approximately 5,200 *additional* benefit recipients, whose original benefit had dropped to between 68.2 percent and 75 percent purchasing power, began to receive supplemental payments as well.

New Law Guarantees Purchasing Power
 The Ruth Q. dePrida Act authorized the 75 percent level of purchasing

power only as long as there were sufficient funds in the Supplemental Benefit Maintenance Account to provide the increase from the previous 68.2 percent purchasing power level. That money primarily comes from the state General Fund and is based on the level of teacher payroll statewide. However, it was not certain the funding would continue from year to year. Thanks to a law in the benefits package, funding for up to 75 percent purchasing power is now guaranteed from the General Fund well into the future.

Social Security Reform Will Adversely Affect STRS

Jennifer DuCray-Morrill, Deputy CEO,
Governmental Affairs & Program Development

After years of general talk about reforming the Social Security system, it appears Congress and the Administration are finally serious in their search for ways to bail out the struggling system. One solution under consideration is mandatory Social Security coverage of state and local government employees, including public school teachers. The Teachers' Retirement Board voted on September 11, 1997, to oppose this solution.

The majority of funding for teacher retirement benefits today comes from investment income on employee, employer and state contributions. It is our position that this investment income would be severely eroded if significant contributions are made instead to Social Security. Mandating Social Security coverage for all newly hired teachers would not only ad-

versely affect newly hired teachers, but would also have far-reaching impacts on the public schools, active and retired members and STRS itself.

The threats from mandatory coverage are outlined on page one. Here I want to tell you what we're doing to ensure the retirement system California's teachers depend on is represented during this debate.

In a series of meetings to be held throughout the state, STRS will educate teachers and employers on the impacts of mandatory coverage as a way of generating a grassroots movement. Our goal is to motivate affected individuals and constituent groups to express their concerns to their Congressional representatives. Similar initiatives are under way in other non-Social Security states and STRS is coordinating efforts with them.

Success in preventing mandatory coverage will depend largely on those who will suffer under it. It's important that Congress hear, either through a letter or a telephone call, from every person and group concerned about this issue.

With both the Democrats and Republicans interested in finding new revenue to bolster the Social Security system, we expect a bipartisan legislative package will be introduced as early as January 1999. Once a bipartisan package is agreed to, it will be difficult to remove items that have been included.

So now is the time to act. Express your view to your Congressional representatives. That is what STRS and other concerned parties are doing. Please join us.

CalSTRS 403(b) Expanding Investment Options

The CalSTRS 403(b) deferred compensation program is offering an expanded set of core fund choices, giving members more investment control and flexibility.

New 403(b) Options

The new options, available to members in December, are:

- International Equity Fund
- Bond Fund
- Expanded Equity Index Fund

The CalSTRS 403(b) Program continues to offer investment choices in:

- Money Market Fund
- S&P 500 Index Fund

In addition to the five core funds, the CalSTRS 403(b) Program has the Self-Managed Account, which is a self-directed option offering choices among 2,000 retail mutual funds.

Total administration and investment cost is less than 1 percent, which is up to half the cost of other deferred compensation programs. Also, there are no loads or contingent deferred sales charges, mortality or risk expenses. All of this combines to mean more of your money will be invested, resulting in more money at retirement.

Interested In CalSTRS 403(b) Program?

If you are interested in learning more about the CalSTRS 403(b) Program:

- check with your employer to determine if the CalSTRS 403(b) Program is offered in your district
- call State Street Bank representatives to request an enrollment kit.

Call State Street Bank direct at 800-699-4032. Representatives are available Monday through Friday 7:00 a.m. to 9:00 p.m. and Saturday and Sunday 9:00 a.m. to 5:00 p.m.

STRS in Final Stages of “Year 2000” Project

STRS is near completion of a project to ensure uninterrupted computer processing into the year 2000 (Y2K) and beyond. The project, dubbed “STRS 2000,” includes updating the STRS on-line computer system and working with other state agencies and member employers to guarantee their systems are compatible with STRS. The project will be completed by October 1998.

At STRS, the primary focus is the on-line information system, which is used to establish and maintain active member accounts as well as pay benefits to defined benefit members and beneficia-

ries. Programming for the Cash Balance Plan has also been updated.

Staff is working with all external service providers and county offices of education to make sure their systems are compatible with STRS Y2K programming changes. STRS is also including language in all contracts and purchase orders requiring vendors and organizations doing business with STRS to guarantee Y2K compliance.

The computer industry has long used the shortcut of two digits in the year portion of the date field in computer programs. If left unchanged, the short-

cut could cause some computers to be unable to correctly perform critical date-dependent calculations, such as the calculation of interest. If, for example, a computer recognized a date in the year 2000 as a date in the year 1900, substantially more interest could be calculated than the correct amount.

Governor Pete Wilson issued an Executive Order in 1997 requiring all state agencies become Y2K compliant by 1998. STRS will spend about \$470,000 and be Y2K compliant before the state deadline. Other California agencies will spend more than \$245 million and, worldwide, the cost may reach \$600 billion.

Social Security Debate

Continued from page 1 ...

with Social Security, equates to retirement benefits currently provided by STRS. The supplemental tier would be difficult to pay for except in the unlikely event new state revenues can be found.

Mandatory Social Security coverage would impose a major financial burden on California public schools. Added to current pension costs, the schools would face a 6.2 percent Social Security payroll tax cost for new teachers. The average additional annual cost for a new hire would be at least \$1,600 each for the employer and employee.

The impact of these additional costs would affect not only newly hired teachers, but current teachers as well. Employers have indicated to STRS that a reduction in services would be necessary in order to address the increased costs of mandatory coverage. This would mean a cut in funds for libraries, athletics and other programs. Current teachers might even see changes in their employer-

provided benefits, such as a decrease in health care premium coverage.

Retirement systems such as STRS would also feel the impact, according to the General Accounting Office, which stated mandatory coverage is “likely to result in reduced contributions to the current pension plan.” STRS is currently well-funded. However, in the future, the liabilities for the closed group of current participants could exceed assets, creating an unfunded liability. A substantial reduction in contributions from new hires would adversely affect the pay-down of any unfunded liability of the plan. Reduction in contributions could also impact any increase in future benefits.

In addition to the fiscal impacts of mandatory coverage, the local, flexible control of STRS would be severely affected. California teachers now have a retirement plan designed for their unique work histories. Teacher groups have input on benefits through the

bargaining and state legislative processes. The flexibility, ability to tailor retirement benefits, and directly manage retirement costs would be lost if STRS must give way to the “one-size-fits-all” approach of Social Security determined in Washington.

Social Security has been in place for 63 years as a “pay-as-you-go” system. It might have been “fair” to mandate state and local governments at the start. However, it is unfair to wait until late in the game and then mandate coverage to solve long-standing solvency problems that the states and local governments had no hand in creating.

With the Social Security reform due for action early in the new year, STRS is working now to inform Congress of the severe costs and dislocation of mandatory coverage on state and local governments and their retirement systems. For more information on what STRS is doing to prevent mandatory coverage, see page 8.

CalSTRS Financial Education Program Expands to Meet Member Demand

32 Workshops Set For
January Through May 1999

Increasing numbers of American workers are interested in how far their retirement income will go toward covering their anticipated lifestyle. Recognizing this trend, beginning in 1996, STRS responded with financial planning workshops oriented specifically to STRS members.

The program continues to grow. During 1997-98, more than 1,200 members and guests attended STRS financial planning workshops. Another 1,500 persons sent registrations for already-filled workshops, confirming members want to learn more about managing their own finances. To meet member demand for this information, STRS will increase the number of financial planning workshops to 32. They will be presented around the state from January through May 1999.

Members attending one of these 32 workshops will find them a source of reliable and objective information.

The emphasis is on member education and understanding and how to prepare for a secure future.

Each workshop covers a range of topics. Presenters in each four-hour session will help members calculate their STRS retirement benefits and gain an awareness of how Social Security may affect their retirement picture. Once participants see what they can reasonably expect from these two potential sources of income, they will hear how to take action through financial planning.

The workshops are designed for younger members who are eager to begin planning early in their careers, as well as members who are at least ten years away from retirement.

Want to Register?

To attend a workshop, members are urged to send in a registration form (opposite page) or call STRS to register early. A \$20.00 advance registra-

tion fee covers the workshop, materials, and refreshments. A spouse or guest can register in advance for \$10.00. Due to limited seating, walk-ins may not be accommodated. Confirmation letters will be sent approximately three weeks prior to each workshop.

Need to Cancel?

With interest in the workshops high, anyone needing to cancel a registration is urged to do so to allow space for another member. To cancel, call STRS at least ten days prior to the workshop. A full refund will be sent four weeks after the workshop date.

800-228-5453,
915-229-3870,
or 916-229-3541
for hearing
impaired persons.



Select Teletalk, then select the
financial workshop option.

CalSTRS Financial Education Workshop Schedule

County Location	Date	County Location	Date	County Location	Date
Shasta	1/09/99	Los Angeles	2/27/99	Sonoma	4/10/99
San Diego	1/09/99	Contra Costa	3/06/99	Orange	4/17/99
San Bernardino	1/23/99	San Bernardino	3/06/99	San Joaquin	4/24/99
Los Angeles	1/23/99	Orange	3/06/99	Contra Costa	4/24/99
Contra Costa	1/30/99	Fresno	3/06/99	Sacramento	5/01/99
San Joaquin	1/30/99	Shasta	3/13/99	Kern	5/08/99
Santa Barbara	2/06/99	Santa Cruz	3/13/99	Ventura	5/15/99
Los Angeles	2/06/99	Los Angeles	3/13/99	Fresno	5/22/99
Santa Cruz	2/06/99	Shasta	3/20/99		
Orange	2/20/99	Santa Barbara	3/27/99		
San Bernardino	2/27/99	San Diego	3/27/99		
San Mateo	2/27/99	Sacramento	4/10/99		

Please Register Me For a CalSTRS Financial Education Workshop

☐ \$20.00 Member ☐ \$10.00 Guest

Name: _____

Street: _____

City: _____ State: _____ Zip: _____

Day Phone: () _____ Evening Phone: () _____

Spouse or Guest Name: _____ Phone: () _____

Workshop Location Selected: _____ Workshop Date Selected: ____/____/____

RETURN THIS FORM WITH PAYMENT TO: STRS, P.O. BOX 15275, SACRAMENTO CA 95851,
Attn: Cash Receipts

STRS will send you a confirmation letter approximately three weeks in advance of your selected workshop.

You may request a refund by calling 800-228-5453, 916-229-3870, or 916-229-3541 for hearing impaired persons.

Members May Purchase Service Credit Earned in Another State

Your service retirement monthly allowance is based on a formula of multiplying your age factor, final compensation and years of service, called service credit. Therefore, increasing the years of service credit you have at retirement would raise your monthly allowance. For members who have worked in other states, a new law might offer the opportunity to do this.

Beginning January 1, 1999, you may purchase up to 10 years of service credit you have earned in a public retirement system for service covering public education in another state.

How May I Pay For Out-of-State Service Credit?

- You may pay the amount due with a lump-sum payment within 35 days of the billing invoice.
- A monthly payment option is available, however, since the full payment must be received before you retire, your retirement would have to be postponed until after full payment is made.
- You can pay with a rollover from a 401(a), 401(k) or qualified conduit IRA. As a result you can use the funds on deposit in the retirement system in another state to purchase STRS service credit. Public Service staff can calculate for you the amount of service credit your funds will purchase. Funds from a 403(b) plan do not qualify for rollover into STRS. (Please note failure to complete the purchase of additional service credit using rollover funds may result in a taxable refund to you. Please consult with STRS before initiating a rollover.)

You may take up to 10 years to pay for out-of-state service credit. However, if you are near retirement, full payment must be made prior to the effective date of your retirement or within 30 days of the date of the billing invoice if the billing request was received prior to your retirement date, whichever is later.

What is the Cost to Purchase Out-of-State Service Credit?

The cost of purchasing out-of-state service credit is different for each member. One factor in the cost is the member's age at the time of purchase. The cost will be lower for a younger individual, since funds can earn compounded interest over a longer period of time before the member receives his or her retirement benefit.

The following examples illustrate this point:

Member A, age 60 with an annual salary of \$50,200, would pay \$12,328 for one year of out-of-state service credit.

Member B, at age 30 with an annual salary of \$30,000 would pay \$3,442 for one year of service credit.

How Does the Purchase of Out-of-State Service Credit Affect My Service Retirement Allowance?

By raising their years of service, Member A and Member B would see their monthly retirement allowances increase by \$93. (For purposes of comparison, it is assumed both members retired at age 60 with 30 years of service credit and a final compensation of \$4,208.33.) The \$84 would be in addition to their monthly allowance of \$2,777. (Member B's final

compensation and retirement allowance is expressed in today's dollars.)

How to Begin The Process

Requesting an out-of-state billing statement from STRS starts the process to purchase service credit. Before you make that request, however, you will want to compare the cost with the expected benefit before you decide to purchase the service credit. Cost estimators on the STRS Web site (www.strs.ca.gov) can help you determine the purchase price for the number of years' credit you wish to buy or the number of years' credit you can purchase, given the amount of funds you have available. Members without Internet access may obtain assistance from the Public Service Office at a telephone number below.

The next step would be to calculate the number of months it will take to recover the cost of your purchase. The simplest means to compute this is by dividing the cost of purchasing your out-of-state service credit by your monthly allowance increase.

After you have figured the purchase cost and recovery time, and you have decided to purchase out-of-state service credit, you may write or call STRS as of November 1, 1998, to request an out-of-state billing statement.

800-228-5453
916-229-3870
or 916-229-3541
for hearing
impaired persons



Select the Public Service Office.
Staff are available Monday
through Friday 8:00 a.m. to 5:00 p.m.

STRS Investment Portfolio Tops \$88 Billion

Preliminary results indicate another record year for the California State Teachers' Retirement System's investment portfolio. The unaudited figures show the market value of the STRS investment portfolio reached \$88.3 billion on June 30, 1998. This represents a \$13.5 billion increase from last year's market value.

The investment portfolio posted an increase of 17 percent for the 12 months ending June 30, 1998. For the sixth time in seven years, the total rate of return for the investment portfolio has exceeded 13 percent.

The continued high performance is due to a combination of favorable

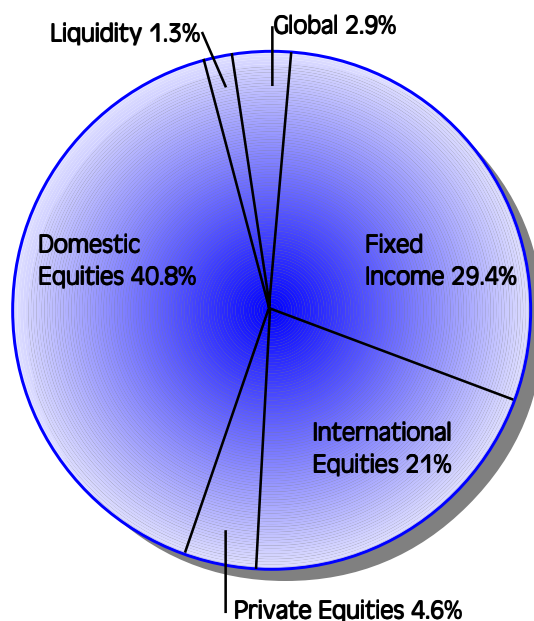
market conditions coupled with a sound investment management plan. The plan's underlying principle is that performance over many years is of greater significance than the inevitable changes that take place in the day-to-day investment world.

This long-term investment plan concentrates on safety, liquidity, and diversification. STRS ensures a strong portfolio by diversifying among U.S. stocks, international stocks, U.S. bonds (fixed income), U.S. real estate, and private equity. With its "eggs" not in one, but in a variety of baskets, the investment portfolio is protected from staggering single events, such as a crash in the Pacific Basin stock markets.

A growing and diversified investment portfolio helps STRS to meet its first objective — to have the funds available to meet the retirement needs of members. Regardless of the daily performance of the investment portfolio, STRS' obligation to active, disabled, and retired members continues. The \$250 million paid out in benefits each month is not affected by an economic report, a government statistic, or whether the U.S. economy is booming or bust. Benefits must still be paid in a timely manner according to a formula set by the legislature, including years of credited service, age at retirement, and highest qualifying compensation.

Asset Allocation

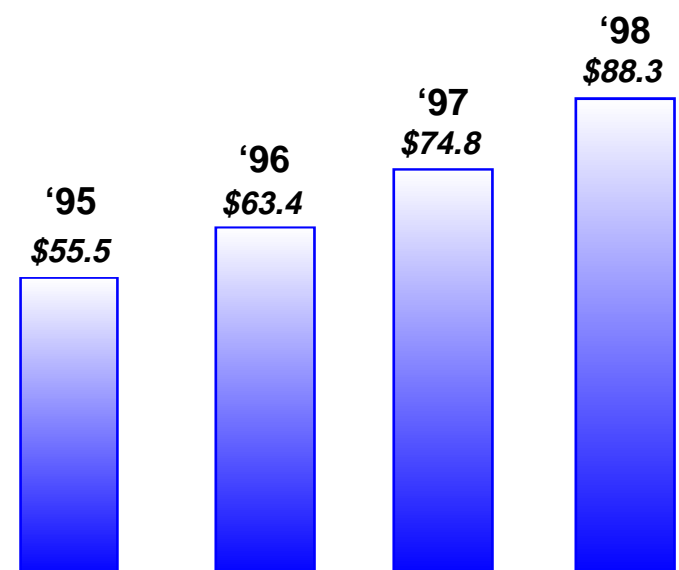
As of 6/30/98



Growth in Total Investments

In billions

As of 6/30/98



Tips for Checking Annual Statement of Account

Your Annual Statement of Account provides you with information about your retirement account and is one of your most important STRS records. Your account data originates with your employer, is used to produce the Annual Statement, and is also used to determine the allowance you will receive at retirement. Making sure your account is accurate as each career year passes helps avoid problems at retirement, especially if you are employed to teach less than full-time.

Record of your service credit begins with your district or county staff who prepare monthly reports for STRS. The reports contain your earned salary, earnable salary, and contributions for the month. They are then run electronically against STRS database and your STRS service credit and contributions records are updated.

Two-Step Process to Check Records

It is important that you review your Annual Statement of Account when you receive it. In the TRANSACTIONS section of your Annual Statement of Account (see below) the CURRENT YEAR SERVICE AND CONTRIBUTIONS line shows how much service credit, contributions, and interest have been credited to your account for the fiscal year just ended.

Step A - The 8% MEMBER CONTRIBUTIONS (\$) column shows the amount of contributions you made to STRS during the fiscal year.

If you wish to double-check the information reported, divide the contribution amount by 8 percent. The result of this computation will be the *earnings* reported for you for the fiscal year. You can then compare that amount to the creditable earnings

shown on your pay stubs from your employer. *Are they the same?* (Note: If the amount is different, you may have received pay that was not creditable for retirement purposes, such as overtime or some stipends. Contact your employer for clarification.)

Step B - The SERVICE CREDIT (YRS) column shows the amount of service credit you have accumulated. If you received 1.000 for the year, then your earnings equal your earnable salary. If your contract with your employer calls for you to work less than full-time, or you did not receive full pay because of unpaid leave, this number will correspond to your reduced contract or service.

If you wish to double-check the earnable salary rate reported, use the amount of earnings you just computed above and divide by the SERVICE CREDIT (YRS) shown on the Annual Statement. The result will be your *earnable* income for the fiscal year. Your earnable income should be the same as the salary amount found on your employer's salary schedule. *Is your earnable income correct?*

Do You Have A Question?

If you have a question regarding earnings and earnable, contact your employer. If you then still have a question, contact the STRS Public Service Office at a number below.

ANNUAL STATEMENT OF ACCOUNT

TRANSACTIONS	SERVICE CREDIT (YRS)	8% MEMBER CONTRIBUTIONS (\$)		INTEREST (\$)	TOTAL (\$)
		TAXED	TAX DEFERRED		
CURRENT YEAR SERVICE AND CONTRIBUTIONS	.750 Step B		\$2,429.78 Step A		\$2,429.78

Double-Check Computations

$\$2,429.78 \div .08 = \$30,372.25$ Earnings Reported to STRS

$\$30,372.25 \div .750 = \$40,496$ Earnable Reported to STRS
(Due to rounding of service credit computation, this figure may not be exact.)

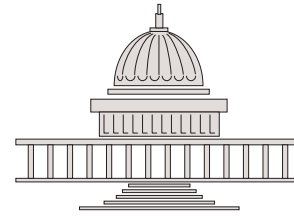
EXAMPLE

800-228-5453
916-229-3870
or 916-229-3541
for hearing
impaired persons



1998 State Legislation Update

All of the following bills, have successfully moved through the Legislature and, except where otherwise noted, are on the Governor's desk awaiting action.



Assembly Bills

AB 88, Baca Vetoed

Allows a member of STRS, who is at least 55 years of age, to retire, subject to employer option on or after July 1, 1999, with full retirement benefits, if the sum of the member's age and years of credited service equals or exceeds 85.

AB 1102, Knox BENEFITS PACKAGE

(1) Career bonus, see page 6 (2) Unused sick leave to service credit, see page 4, and (3) Purchasing power protection. See page 6.

AB 1150, Prenter BENEFITS PACKAGE

Increased age factor, see page 5.

***AB 1166, House**

Establishes a minimum standard of 175 days or 1,050 hours for full-time service and compensation for California community college counselors and librarians. Clarifies minimum standard service for adult education programs, and part-time credit and adult education community college instructors.

AB 2768, Assembly PER&SS Vetoed
Requires the four "teacher" members of the TRB be elected to the Board from their respective constituencies rather than appointed by the Governor.

AB 2804, Assembly PER&SS BENEFITS PACKAGE

Reamortizes remaining unfunded liability to 2027 and reallocates a portion of General Fund contributions to finance new benefits. See page 3.

***AJR 63, Prenter (Resolution Chapter 82)**

Memorializes the President and Congress to approve the appropriation of specified funds from the sale of the Elk Hills Naval Petroleum Reserve for the benefit of retired members of STRS.

Senate Bills

SB 610, O'Connell

Extends reciprocal rights and limitations, which are applicable to members of PERS, to members of the '37 Act Counties Retirement Systems, who are also members of the STRS Defined Benefit Plan.

SB 1486, Rainey (Chapter 262)

Permits a retired member to designate a spouse as his or her new option beneficiary, under specified circumstances.

***SB 1528, Schiff BENEFITS PACKAGE**

Health insurance study. See page 4.

SB 1753, Schiff

Prescribes procedures to (1) consider specified financial matters involving vendors and contractors in closed sessions of the TRB and the PERS Board of Administration, (2) disclose gifts and campaign contributions within 12 months, and (3) prohibit specified board member communications.

***SB 1945, Karnette (Chapter 419)**
100% financing home loan program. See page 4.

***SB 2047, Lewis (Chapter 349)**

Provides (1) a new Option 8 allowing a member to select more than one option beneficiary, effective January 1, 2000, and (2) for a change from Option 4 or 5 to Option 6 or 7 under specified circumstances. Also allows members who selected a pre-retirement election of an option to receive upon retirement the greater of: the benefit determined under the option factors in place at the time of retirement or in place when the pre-retirement option election was made.

***SB 2085, Burton**

Merges the CB and the DB Plans and their respective trusts into the TRF.

***SB 2126, Senate PE&R**

Permits (1) the purchase of nonqualified service, (2) STRS members to take up to 120 months to pay for permissive service purchases, (3) the purchase of out-of-state service credit to count toward vesting, and (4) expands authority to issue credit enhancements to STRS employers.

***SB 2224, Alpert**

Increases to an unmodified allowance the allowance paid to certain members who retired prior to 1991 under specified conditions. Funding for benefit from 1997-98 normal cost surplus.

***Board sponsored or co-sponsored bill.**

Cash Balance Sees First Retirement



Emma Zink, Teachers' Retirement Board Chairperson, congratulates Edward Goodell, the first Cash Balance Plan participant to retire. His career had been spent in the San Diego area teaching his own method of physical fitness to a wide range of students, including county jail inmates. For the past five years, Mr. Goodell conducted exercise classes for the mind and body at local retirement homes in La Mesa.

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